

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: Village of Augusta, Michigan	County Kalamazoo
Audit Date February 28, 2006	Opinion Date April 21, 2006	Date Accountant Report Submitted To State: August 7, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 750 Trade Centre Way, Suite 300	City Portage	State MI	ZIP 49002
Accountant Signature 			

Village of Augusta, Michigan

**Financial Report
with Supplemental Information
February 28, 2006**

Village of Augusta, Michigan

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Independent Auditor's Report

To the Village Board
Village of Augusta, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Augusta, Michigan (the "Village") as of and for the year ended February 28, 2006, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Augusta, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Augusta, Michigan as of February 28, 2006 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Village Board
Village of Augusta, Michigan

As described in Note I, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of March 1, 2005.

Plante & Moran, PLLC

April 21, 2006

Village of Augusta, Michigan

Management's Discussion and Analysis

Our discussion and analysis of the Village of Augusta, Michigan's (the "Village") financial performance provides an overview of the Village's financial activities for the fiscal year ended February 28, 2006. Please read it in conjunction with the Village's financial statements.

Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended February 28, 2006:

- Total net assets related to the Village's governmental activities increased by approximately \$51,000, while net assets related to the Village's business-type activities decreased approximately \$27,000.
- The General Fund continues to subsidize the Water Supply Fund by transferring amounts necessary to meet annual debt service payments on the general obligation water bond.

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds.

Village of Augusta, Michigan

Management's Discussion and Analysis (Continued)

The Village as a Whole

The following table shows, in a condensed format, the net assets as of the current date, which will be compared to prior year information when available in the future:

	Governmental Activities	Business-type Activities	Total
Assets			
Current assets	\$ 291,740	\$ (51,458)	\$ 240,282
Noncurrent assets	<u>197,352</u>	<u>2,758,996</u>	<u>2,956,348</u>
Total assets	489,092	2,707,538	3,196,630
Liabilities			
Current liabilities	27,481	69,099	96,580
Long-term liabilities	<u>29,623</u>	<u>1,305,000</u>	<u>1,334,623</u>
Total liabilities	<u>57,104</u>	<u>1,374,099</u>	<u>1,431,203</u>
Net Assets			
Invested in capital assets -			
Net of related debt	150,466	1,381,931	1,532,397
Restricted	28,398	-	28,398
Unrestricted	<u>253,124</u>	<u>(48,492)</u>	<u>204,632</u>
Total net assets	<u>\$ 431,988</u>	<u>\$ 1,333,439</u>	<u>\$ 1,765,427</u>

Village of Augusta, Michigan

Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year, which will be compared to the prior year when available in the future:

	Governmental Activities	Business-type Activities	Total
Revenue			
Program revenue:			
Charges for services	\$ 13,332	\$ 189,728	\$ 203,060
Operating grants and contributions	4,229	-	4,229
General revenue:			
Property taxes	191,296	-	191,296
State-shared revenue	152,129	-	152,129
District court fees	27,264	-	27,264
Franchise fees	8,541	-	8,541
Miscellaneous	16,333	20,669	37,002
Total revenue	413,124	210,397	623,521
Program Expenses			
General government	161,690	-	161,690
Public safety	69,116	-	69,116
Public works	88,998	-	88,998
Water and sewer	-	279,052	279,052
Transfers	42,119	(42,119)	-
Total program expenses	361,923	236,933	598,856
Change in Net Assets	\$ 51,201	\$ (26,536)	\$ 24,665

Governmental Activities

The Village's net assets increased by approximately \$51,000 during the year. This is primarily due to a decrease in expenses. The Village cut costs in the hall and grounds by approximately \$16,000 compared to prior year and remained within budget.

Business-type Activities

The Village's business-type activities consist of the Water Supply and Sewer Funds. The Village's net assets decreased by approximately \$27,000 during the year. This is approximately \$51,000 less than in 2005, primarily due to the \$42,000 operating transfer from the General Fund to the Water Supply Fund during the year. In addition, revenues increased approximately \$21,000 due to rate increases approved in December 2004.

Village of Augusta, Michigan

Management's Discussion and Analysis (Continued)

The Village's Funds

Our analysis of the Village's major funds begins on page 9, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. The Village board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Village's major funds for 2006 include the General Fund, the Major Streets Fund, and the Local Streets Fund.

The General Fund pays for most of the Village's governmental services. Both the Major Streets and Local Streets Funds incurred significant expenses during the year for streets, totaling \$68,105 for Major Streets and \$51,031 for Local Streets. During the year, the Village made transfers to the Local Streets Fund and the Water Supply Fund for \$40,645 and \$42,119, respectively.

General Fund Budgetary Highlights

The Village did not amend the General Fund budget during the year. One significant item budgeted in the General Fund was the debt service payment for \$66,515. The actual General Fund expenditure for debt service was \$0, as it was paid from the Water Supply Fund. In addition, one significant item not budgeted in the General Fund was transfers to the Local Streets Fund and the Water Supply Fund, totaling \$82,764. Including these two significant items, the actual variance between General Fund budget and actual was a \$26,271 shortfall.

Capital Asset and Debt Administration

During the year, the Village issued new bonds for the replacement of various water systems in the amount of \$750,000. Assets of \$728,665 were capitalized and bond issuance costs of \$21,335 were recorded from the debt proceeds. In addition, the Village entered into new installment purchase agreements for a police vehicle for \$23,206 and police radios for \$16,036. As of February 28, 2006, no payments had been made on either of the new debt issues.

Economic Factors and Next Year's Budget

The Village anticipates that water and sewer rates will not increase in 2007.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Village office.

Village of Augusta, Michigan

Statement of Net Assets February 28, 2006

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents (Note 3)	\$ 176,610	\$ 166	\$ 176,776
Receivables	37,797	25,709	63,506
Internal balances	77,333	(77,333)	-
Capital assets - Net (Note 4):			
Assets not being depreciated	4,948	-	4,948
Depreciated assets	192,404	2,731,931	2,924,335
Bond issuance costs	-	27,065	27,065
Total assets	489,092	2,707,538	3,196,630
Liabilities			
Accounts payable	5,159	6,636	11,795
Accrued and other liabilities	5,059	17,463	22,522
Noncurrent liabilities (Note 6):			
Due within one year	17,263	45,000	62,263
Due in more than one year	29,623	1,305,000	1,334,623
Total liabilities	57,104	1,374,099	1,431,203
Net Assets			
Invested in capital assets - Net of related debt	150,466	1,381,931	1,532,397
Restricted - Highways and streets	28,398	-	28,398
Unrestricted	253,124	(48,492)	204,632
Total net assets	\$ 431,988	\$ 1,333,439	\$ 1,765,427

Village of Augusta, Michigan

Statement of Activities Year Ended February 28, 2006

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
Primary government:						
Governmental activities:						
General government	\$ 161,690	\$ 13,332	\$ -	\$ (148,358)	\$ -	\$ (148,358)
Public safety	69,116	-	4,229	(64,887)	-	(64,887)
Public works	88,998	-	-	(88,998)	-	(88,998)
Total governmental activities	319,804	13,332	4,229	(302,243)	-	(302,243)
Business-type activities:						
Sewer	110,499	81,349	-	-	(29,150)	(29,150)
Water supply	168,553	108,379	-	-	(60,174)	(60,174)
Total primary government	<u>\$ 598,856</u>	<u>\$ 203,060</u>	<u>\$ 4,229</u>	(302,243)	(89,324)	(391,567)
General revenues:						
Property taxes				191,296	-	191,296
State-shared revenues				152,129	-	152,129
District court fees				27,264	-	27,264
Franchise fees				8,541	-	8,541
Miscellaneous				16,333	20,669	37,002
Transfers				(42,119)	42,119	-
Total general revenues				353,444	62,788	416,232
Change in Net Assets				51,201	(26,536)	24,665
Net Assets - Beginning of year				380,787	1,359,975	1,740,762
Net Assets - End of year				<u>\$ 431,988</u>	<u>\$ 1,333,439</u>	<u>\$ 1,765,427</u>

Village of Augusta, Michigan

Governmental Funds Balance Sheet February 28, 2006

	Major Funds			Total
	General	Major Streets	Local	Governmental
	Fund	Fund	Streets	Funds
	Fund	Fund	Fund	Funds
Assets				
Cash and cash equivalents	\$ 48,768	\$ 23,872	\$ -	\$ 72,640
Accounts receivable	24,664	9,463	3,670	37,797
Due from other funds	85,940	-	-	85,940
Total assets	<u>\$ 159,372</u>	<u>\$ 33,335</u>	<u>\$ 3,670</u>	<u>\$ 196,377</u>
Liabilities and Fund Balances				
Liabilities				
Accounts payable	\$ 5,159	\$ -	\$ -	\$ 5,159
Other liabilities	5,059	-	-	5,059
Due to other funds	-	4,937	3,670	8,607
Total liabilities	10,218	4,937	3,670	18,825
Fund Balances - Unreserved and				
undesignated, reported in				
General Fund	149,154	-	-	149,154
Special Revenue Funds	-	28,398	-	28,398
Total fund balances	<u>149,154</u>	<u>28,398</u>	<u>-</u>	<u>177,552</u>
Total liabilities and and fund balances	<u>\$ 159,372</u>	<u>\$ 33,335</u>	<u>\$ 3,670</u>	
Amounts reported for governmental activities in the statement of net assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds				197,352
Long-term liabilities not due and payable in the current period are not reported in the funds				(46,886)
Internal Service Funds are included as part of governmental activities				103,970
Net assets of governmental activities				<u>\$ 431,988</u>

Village of Augusta, Michigan

Governmental Funds

Statement of Revenue, Expenditures, and Changes in Fund Balances

Year Ended February 28, 2006

	Major Funds			Total
	General	Major	Local Streets	Governmental
	Fund	Streets Fund	Fund	Funds
Revenue				
Property taxes, collection fees, and interest	\$ 191,296	\$ -	\$ -	\$ 191,296
Licenses and permits	3,243	-	-	3,243
State-shared revenue and grants	82,852	52,966	20,540	156,358
Other	62,227	-	-	62,227
Total revenue	339,618	52,966	20,540	413,124
Expenditures				
Legislative	11,764	-	-	11,764
General government	195,320	-	-	195,320
Public safety	62,509	-	-	62,509
Public works	13,073	-	-	13,073
Highways and streets	-	92,492	72,171	164,663
Total expenditures	282,666	92,492	72,171	447,329
Excess (Deficiency) of Revenue Over Expenditures	56,952	(39,526)	(51,631)	(34,205)
Other Financing Sources (Uses)				
Transfers in	-	-	40,645	40,645
Transfers out	(82,764)	-	-	(82,764)
Total other financing sources (uses)	(82,764)	-	40,645	(42,119)
Net Change in Fund Balances	(25,812)	(39,526)	(10,986)	(76,324)
Fund Balances - Beginning of year	174,966	67,924	10,986	253,876
Fund Balances - End of year	<u>\$ 149,154</u>	<u>\$ 28,398</u>	<u>\$ -</u>	<u>\$ 177,552</u>

Village of Augusta, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended February 28, 2006

Net Change in Fund Balances - Total Governmental Funds	\$ (76,324)
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:

Asset purchases	117,861
Depreciation	(4,149)

Internal Service Fund activity reported in the governmental activities	13,813
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Change in Net Assets of Governmental Activities	<u>\$ 51,201</u>
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Village of Augusta, Michigan

Proprietary Funds Statement of Net Assets February 28, 2006

	Enterprise Funds			Internal
	Water Supply	Sewer	Total	Service Fund
Assets				
Current assets:				
Cash and cash equivalents	\$ -	\$ 166	\$ 166	\$ 103,970
Customer receivables	16,820	8,889	25,709	-
Due from other funds	-	125,333	125,333	-
Total current assets	16,820	134,388	151,208	103,970
Bond issuance costs	27,065	-	27,065	-
Noncurrent assets - Capital assets	1,526,828	1,205,103	2,731,931	46,855
Total noncurrent assets	1,553,893	1,205,103	2,758,996	46,855
Total assets	1,570,713	1,339,491	2,910,204	150,825
Liabilities				
Current liabilities:				
Accounts payable	584	6,052	6,636	-
Accrued interest	17,463	-	17,463	-
Due to other funds	202,666	-	202,666	-
Current portion of long-term debt	45,000	-	45,000	17,263
Total current liabilities	265,713	6,052	271,765	17,263
Long-term debt	1,305,000	-	1,305,000	29,623
Total liabilities	1,570,713	6,052	1,576,765	46,886
Net Assets				
Investment in capital assets - Net of related debt	176,828	1,205,103	1,381,931	(31)
Unrestricted	(176,828)	128,336	(48,492)	103,970
Total net assets	\$ -	\$ 1,333,439	\$ 1,333,439	\$ 103,939

Village of Augusta, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended February 28, 2006

	Enterprise Funds			Internal
	Water Supply	Sewer	Total	Service Fund
Operating Revenue				
Utility billings	\$ 108,379	\$ 65,776	\$ 174,155	\$ -
Rental charges	-	15,573	15,573	47,877
Miscellaneous	20,669	-	20,669	-
Total operating revenue	129,048	81,349	210,397	47,877
Operating Expenses				
Operating expenses	77,106	64,049	141,155	16,608
Depreciation	55,393	46,450	101,843	16,856
Total operating expenses	132,499	110,499	242,998	33,464
Operating Income (Loss)	(3,451)	(29,150)	(32,601)	14,413
Nonoperating Expense - Interest	(36,054)	-	(36,054)	(600)
Income (Loss) - Before transfers	(39,505)	(29,150)	(68,655)	13,813
Transfers from Other Funds	42,119	-	42,119	-
Change in Net Assets	2,614	(29,150)	(26,536)	13,813
Net Assets (Deficit) - Beginning of year	(2,614)	1,362,589	1,359,975	90,126
Net Assets - End of year	<u>\$ -</u>	<u>\$ 1,333,439</u>	<u>\$ 1,333,439</u>	<u>\$ 103,939</u>

Village of Augusta, Michigan

Proprietary Funds Statement of Cash Flows Year Ended February 28, 2006

	Enterprise Funds			Internal Service Fund
	Water Supply	Sewer	Total	Fund
Cash Flows from Operating Activities				
Receipts from customers	\$ 108,379	\$ 81,349	\$ 189,728	\$ 47,877
Payments to suppliers	(73,276)	(54,950)	(128,226)	(16,555)
Payments to employees	(6,274)	(7,967)	(14,241)	(53)
Internal balances	125,333	(125,333)	-	-
Other receipts	20,669	-	20,669	-
Net cash provided by (used in) operating activities	174,831	(106,901)	67,930	31,269
Cash Flows from Capital and Related Financing Activities				
Proceeds from debt issuance	750,000	-	750,000	-
Bond issuance costs	(21,335)	-	(21,335)	-
Principal and interest payments	(66,054)	-	(66,054)	(7,949)
Purchase of capital assets	(672,666)	-	(672,666)	(2,320)
Net cash used in capital and related financing activities	(10,055)	-	(10,055)	(10,269)
Cash Flows from Noncapital and Related Financing Activities - Transfers in	42,119	-	42,119	-
Net Increase (Decrease) in Cash and Cash Equivalents	206,895	(106,901)	99,994	21,000
Cash and Cash Equivalents - Beginning of year	(206,895)	107,067	(99,828)	82,970
Cash and Cash Equivalents - End of year	<u>\$ -</u>	<u>\$ 166</u>	<u>\$ 166</u>	<u>\$ 103,970</u>
Balance Sheet Classification of Cash and Cash Equivalents - Cash and investments	<u>\$ -</u>	<u>\$ 166</u>	<u>\$ 166</u>	<u>\$ 103,970</u>
Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities				
Operating income (loss)	\$ (3,451)	\$ (29,150)	\$ (32,601)	\$ 14,413
Adjustments to reconcile operating income (loss) to net cash from operating activities:				
Depreciation and amortization	55,393	46,450	101,843	16,856
Changes in assets and liabilities:				
Accounts payable	(1,649)	1,132	(517)	-
Accrued and other liabilities	(795)	-	(795)	-
Internal balances	125,333	(125,333)	-	-
Net cash provided by (used in) operating activities	<u>\$ 174,831</u>	<u>\$ (106,901)</u>	<u>\$ 67,930</u>	<u>\$ 31,269</u>

Noncash Investing, Capital, and Financing Activities - During the year ended February 28, 2006, the Internal Service Fund purchased equipment totaling \$39,242 using installment purchase contracts.

Village of Augusta, Michigan

Notes to Financial Statements February 28, 2006

Note I - Summary of Significant Accounting Policies

The accounting policies of the Village of Augusta (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Augusta:

Reporting Entity

The Village of Augusta is governed by a nine-member Village board; seven members are elected and two are appointed. The accompanying basic financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. In accordance with this criteria, there are no component units included in this reporting entity.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Village of Augusta, Michigan

Notes to Financial Statements February 28, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

General Fund - The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Major Streets Fund - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

Local Streets Fund - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

The Village reports the following major proprietary funds:

Water Supply Fund - The Water Supply Fund is a municipal utility formed by the Village to pump and distribute the Village water supply.

Village of Augusta, Michigan

Notes to Financial Statements February 28, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Sewer Fund - The Sewer Fund is a municipal utility formed by the Village to operate and maintain the wastewater collections and treatment.

Internal Service Fund - The Internal Service Fund is used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the Village, or to other governments, on primarily the cost-reimbursement basis. At February 28, 2006, the only Internal Service Fund is the Equipment Fund.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's water and sewer function and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on October 1, at which time penalties and interest are assessed.

Village of Augusta, Michigan

Notes to Financial Statements February 28, 2006

Note I - Summary of Significant Accounting Policies (Continued)

The Village's 2005 tax is levied and collectible on July 1, 2005 and is recognized as revenue in the year ended February 28, 2006, when the proceeds of the levy are budgeted and available for operations.

The 2005 taxable valuation of the Village totaled \$16.5 million, on which taxes levied consisted of 11.0 mills for operating purposes. This resulted in \$191,000 for operating. These amounts are recognized in the General Fund financial statements as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Village of Augusta, Michigan

Notes to Financial Statements February 28, 2006

Note I - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Highways and streets	20 to 40 years
Buildings and building improvements	7 to 50 years
Water and sewer distribution systems	30 to 50 years
Land improvements	20 to 40 years
Vehicles	5 to 20 years
Furniture and fixtures	5 to 7 years
Other tools and equipment	3 to 7 years

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use of a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Village of Augusta, Michigan

Notes to Financial Statements February 28, 2006

Note 1 - Summary of Significant Accounting Policies (Continued)

Accounting Change - In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Village of Augusta has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Village has elected to implement the general provisions of the statement. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Village's activities
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets include \$58,933 of land, highways and streets, buildings and improvements, land improvements, and machinery and equipment not previously accounted for by the Village.

Note 2 - Stewardship, Compliance, and Accountability

Construction Code Fees - The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year's activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at March 1, 2005	\$ (2,080)
Current year building permit revenue	2,075
Direct costs	<u>3,871</u>
Shortfall at February 28, 2006	<u>\$ (3,876)</u>

Noncompliance with Legal Provisions - The Village has not adopted an investment policy as required by Public Act 196 of 1997 of the State of Michigan.

Village of Augusta, Michigan

Notes to Financial Statements February 28, 2006

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Village has designated one bank for the deposit of its funds.

The Village's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits - Custodial credit risk is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. The Village does not have a deposit policy for custodial credit risk. At year end, the Village had no bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Credit Rate Risk - The Village holds mutual funds that are not rated.

Investment	Fair Value
Money market mutual fund	\$ 90,108

Village of Augusta, Michigan

Notes to Financial Statements February 28, 2006

Note 4 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

	Balance March 1, 2005	Additions	Balance February 28, 2006
Governmental Activities			
Capital assets not being depreciated - Land	\$ 4,948	\$ -	\$ 4,948
Capital assets being depreciated:			
Highways and streets	19,180	117,861	137,041
Buildings and improvements	60,552	-	60,552
Land improvements	3,866	-	3,866
Machinery and equipment	51,972	16,036	68,008
Vehicles	113,616	25,527	139,143
Subtotal	249,186	159,424	408,610
Accumulated depreciation:			
Highways and streets	398	2,629	3,027
Buildings and improvements	47,498	1,520	49,018
Land improvements	3,866	-	3,866
Machinery and equipment	47,967	4,185	52,152
Vehicles	95,472	12,671	108,143
Subtotal	195,201	21,005	216,206
Net capital assets being depreciated	53,985	138,419	192,404
Net capital assets	<u>\$ 58,933</u>	<u>\$ 138,419</u>	<u>\$ 197,352</u>

Village of Augusta, Michigan

Notes to Financial Statements February 28, 2006

Note 4 - Capital Assets (Continued)

Business-type Activities	Balance March 1, 2005	Additions	Transfers	Balance February 28, 2006
Capital assets not being depreciated -				
Construction in progress	\$ 56,000	\$ -	\$ (56,000)	\$ -
Capital assets being depreciated:				
Water system	1,236,648	672,666	56,000	1,965,314
Sewer lines/additions	2,316,373	-	-	2,316,373
Machinery/equipment	76,495	-	-	76,495
Subtotal	3,629,516	672,666	56,000	4,358,182
Accumulated depreciation:				
Water system	384,413	54,073	-	438,486
Sewer lines/additions	1,064,820	46,450	-	1,111,270
Machinery/equipment	76,495	-	-	76,495
Subtotal	1,525,728	100,523	-	1,626,251
Net capital assets being depreciated	2,103,788	572,143	56,000	2,731,931
Net capital assets	<u>\$ 2,159,788</u>	<u>\$ 572,143</u>	<u>\$ -</u>	<u>\$ 2,731,931</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 1,883
Public safety	6,607
Public works	<u>12,515</u>
Total governmental activities	<u>\$ 21,005</u>
Business-type activities:	
Water supply	\$ 54,073
Sewer	<u>46,450</u>
Total business-type activities	<u>\$ 100,523</u>

Village of Augusta, Michigan

Notes to Financial Statements February 28, 2006

Note 5 - Interfund Receivables and Transfers

The following are the interfund receivables at February 28, 2006:

Receivable Fund	Payable Fund	Amount
Due to/from other funds:		
General Fund	Enterprise - Water Supply Fund	\$ 77,333
General Fund	Special Revenue - Major Streets	4,937
General Fund	Special Revenue - Local Streets	3,670
Enterprise - Sewer Fund	Enterprise - Water Supply Fund	<u>125,333</u>
Total		<u>\$ 211,273</u>

These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Local Streets Fund	\$ 40,645
General Fund	Water Supply Fund	<u>42,119</u>
Total		<u>\$ 82,764</u>

Both transfers from the General Fund to the Local Streets Fund and Water Fund represent general operating transfers.

Village of Augusta, Michigan

Notes to Financial Statements February 28, 2006

Note 6 - Long-term Debt

Changes in Long-term Debt

The following are summaries of long-term debt transactions of the Village for the year ended February 28, 2006:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
Installment purchase agreement - Equipment	4.00%	2006	\$ 14,994	\$ -	\$ 7,350	\$ 7,644	\$ 7,644
Installment purchase agreement - Equipment	3.34%	2013	-	16,036	-	16,036	4,120
Installment purchase agreement - Equipment	3.58%	2009	-	23,206	-	23,206	5,499
Total governmental activities			<u>\$ 14,994</u>	<u>\$ 39,242</u>	<u>\$ 7,350</u>	<u>\$ 46,886</u>	<u>\$ 17,263</u>
Business-type Activities							
Water Supply System Improvement bond	5.30%-6.00%	2016	\$ 630,000	\$ -	\$ 30,000	\$ 600,000	\$ 30,000
Kalamazoo County Water Supply System bond	2.125%	2025	-	750,000	-	750,000	15,000
Total business-type activities			<u>\$ 630,000</u>	<u>\$ 750,000</u>	<u>\$ 30,000</u>	<u>\$ 1,350,000</u>	<u>\$ 45,000</u>

Village of Augusta, Michigan

Notes to Financial Statements February 28, 2006

Note 6 - Long-term Debt (Continued)

Debt Service Requirements

The annual requirements to service all debt outstanding as of February 28, 2006, including both principal and interest, are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2007	\$ 17,263	\$ 1,395	\$ 18,658	\$ 45,000	\$ 49,242	\$ 94,242
2008	7,545	973	8,518	65,000	46,863	111,863
2009	7,802	717	8,519	70,000	44,301	114,301
2010	8,067	451	8,518	80,000	41,370	121,370
2011	2,012	177	2,189	85,000	38,060	123,060
2012-2016	4,197	180	4,377	505,000	130,137	635,137
2017-2021	-	-	-	275,000	30,323	305,323
2022-2026	-	-	-	225,000	4,115	229,115
Total	<u>\$ 46,886</u>	<u>\$ 3,893</u>	<u>\$ 50,779</u>	<u>\$ 1,350,000</u>	<u>\$ 384,411</u>	<u>\$ 1,734,411</u>

Interest Incurred - Interest expense for the year ended February 28, 2006 amounted to approximately \$600 in the governmental activities and approximately \$36,000 in the business-type activities.

Note 7 - Contract for Services

During the year ended February 28, 2006, the Village entered into a contract for lawn and cemetery maintenance services. The contract will run through March 2008.

The schedule of payments under the provisions of the contract is as follows:

2007	\$ 13,230
2008	13,230
2009	<u>1,103</u>
Total	<u>\$ 27,563</u>

Costs incurred for the contract for the year ended February 28, 2006 totaled \$13,230.

Note 8 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village has purchased commercial insurance for all the above claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Required Supplemental Information

Village of Augusta, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended February 28, 2006

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Property taxes, collection fees, and interest	\$ 185,000	\$ 185,000	\$ 191,296	\$ 6,296
Licenses and permits	4,000	4,000	3,243	(757)
State-shared revenue and grants	80,000	80,000	82,852	2,852
Interest earned	2,000	2,000	-	(2,000)
Other:				
District court fees	27,000	27,000	27,264	264
Miscellaneous	13,600	13,600	5,305	(8,295)
Administration fee	13,000	13,000	11,028	(1,972)
Cemetery income	8,000	8,000	10,089	2,089
Cable franchise fees	9,000	9,000	8,541	(459)
Contingency	9,515	9,515	-	(9,515)
Total other	80,115	80,115	62,227	(17,888)
Total revenue	351,115	351,115	339,618	(11,497)
Expenditures				
Legislative - Village Council	14,500	14,500	11,764	2,736
General government:				
Elections	-	-	280	(280)
Treasurer	600	600	208	392
Hall and grounds	111,000	111,000	110,538	462
Garage	7,500	7,500	6,029	1,471
Inspections	3,000	3,000	3,871	(871)
Cemetery	18,000	18,000	21,176	(3,176)
Insurance and other funds	51,000	51,000	53,218	(2,218)
Total general government	191,100	191,100	195,320	(4,220)
Debt service	66,515	66,515	-	66,515
Public safety - Police	58,000	58,000	62,509	(4,509)
Public works - Lighting	21,000	21,000	13,073	7,927
Total expenditures	351,115	351,115	282,666	68,449
Excess of Revenue Over Expenditures	-	-	56,952	56,952
Other Financing Uses - Transfers out	-	-	(82,764)	(82,764)
Net Change in Fund Balance	-	-	(25,812)	(25,812)
Fund Balance - Beginning of year	174,966	174,966	174,966	-
Fund Balance - End of year	<u>\$ 174,966</u>	<u>\$ 174,966</u>	<u>\$ 149,154</u>	<u>\$ (25,812)</u>

Village of Augusta, Michigan

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended February 28, 2006

	Major Streets Fund			Local Streets Fund		
			Variance with			Variance with
	Original Budget	Amended Budget	Actual	Amended Budget	Original Budget	Amended Budget
Revenue						
State grants	\$ 57,000	\$ 57,000	\$ 52,966	\$ (4,034)	\$ 22,000	\$ 20,540
Contribution from fund balance	66,000	66,000	-	(66,000)	65,000	-
Total sources of funds	123,000	123,000	52,966	(70,034)	87,000	20,540
Expenditures - Public works						
Administrative	2,000	2,000	2,004	4	1,000	1,008
Routine maintenance	7,700	7,700	22,066	14,366	7,200	19,808
Winter maintenance - Snow/Ice control	1,000	1,000	322	(678)	1,000	324
Contracted services	97,300	97,300	68,100	(29,200)	100,100	51,031
Capital outlay	15,000	15,000	-	(15,000)	-	-
Total expenditures	123,000	123,000	92,492	(30,508)	109,300	72,171
Excess of Expenditures Over Revenue	-	-	(39,526)	(39,526)	(22,300)	(51,631)
Other Financing Sources - Transfers in	-	-	-	-	-	40,645
Net Change in Fund Balances	-	-	(39,526)	(39,526)	(22,300)	(10,986)
Fund Balances - Beginning of year	67,924	67,924	67,924	-	10,986	10,986
Fund Balances (Deficits) - End of year	\$ 67,924	\$ 67,924	\$ 28,398	\$ (39,526)	\$ (11,314)	\$ -
						\$ 11,314

Village of Augusta, Michigan

Note to Required Supplemental Information February 28, 2006

Note - Budgetary Information

The annual budget is prepared by the Village management and adopted by the Village board; subsequent amendments are approved by the Village board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at February 28, 2006 has not been calculated. During the current year, the budget was not amended.

The budget document presents information by fund, function, and department. The legal level of budgetary control adopted by the governing body is the department level.

During the year, the Village incurred expenditures that were in excess of the amounts budgeted as follows:

	Budget	Actual
General Fund - Transfers out	\$ -	\$ 82,764
Major Streets Fund - Routine maintenance	7,700	22,066
Local Streets Fund - Routine maintenance	7,200	19,808